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**CAPITALIZATION THRESHOLDS**

DIVISION OF RESEARCH AND REGULATORY REVIEW  
Florida Public Service Commission  
Tallahassee, Florida  
March 1996

# **CAPITALIZATION THRESHOLDS**

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**Florida Public Service Commission**  
**Tallahassee, Florida**  
**March 1996**

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## I. INTRODUCTION

When a regulated utility makes a purchase, it must categorize that purchase as a capital purchase or an expense. Once it has been determined that the purchase is capital in nature, the purchase is booked as an asset if tracking it is either cost effective or if the purchase is material. However, if the cost of the asset is immaterial and tracking it is not cost effective, the purchase is expensed. The minimum dollar amount at which such a purchase is capitalized is the capitalization threshold. The main objective of the threshold is to reduce the costs associated with recording, tracking, and auditing immaterial assets.

In September of 1995, the National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Accounts discussed capitalization thresholds for regulated industries. The issue is being examined because it has been suggested that the current capitalization thresholds used in some industries are too low to be effective at reducing certain costs associated with recording and maintaining asset records. For this reason, NARUC formed a task force to gather information regarding whether NARUC should recommend thresholds.

The purpose of this report is to aid NARUC by providing information on the costs and benefits of setting capitalization thresholds by industry. In addition, the costs and benefits for higher and lower thresholds are examined.

With the help of the Federal Communications Commission (FCC), Florida Public Service Commission staff generated a survey to gather information on thresholds for regulated industries. Because the FCC is currently examining its own threshold requirements, it was able to aid in the identification of issues relevant to thresholds.

The survey explored what specific thresholds state commissions currently prescribe and possible thresholds which could be adopted. In addition, the survey provided general information important to the determination and application of thresholds (see Attachment I).

State regulatory commissions, including the District of Columbia, were surveyed. Of the fifty-one surveyed, twenty-eight responded for a response rate of 55 percent. The respondents are:

Arizona	Hawaii	Nebraska	S. Dakota
Colorado	Illinois	Nevada	Tennessee
Connecticut	Indiana	New Jersey	Utah
Delaware	Iowa	New Mexico	Vermont
Dist. of Columbia	Louisiana	N. Carolina	Virginia
Florida	Maryland	Oklahoma	Washington
Georgia	Montana	Pennsylvania	Wisconsin

In order to gain the industry perspective, associations representing the electric, gas, telecommunications, and water and wastewater industries were also surveyed. The associations are:

Electric:	Edison Electric Institute
Gas:	American Gas Association
Telecommunications:	Federal Communications Commission OPASTCO United States Telephone Association National Cable Association
Water and Wastewater:	National Association of Water Companies National Rural Water Association

While none of the industry associations responded, Alisal Water Corporation, a California corporation, returned a response. It is assumed that Alisal received a copy from one of the industry associations.

The remainder of this paper describes the current practices in each industry, objectives to consider when establishing a threshold, and specific thresholds suggested by survey respondents. The costs and benefits that factored into their recommendations are presented as well.

## II. CURRENT PRACTICES

Questions one through four of the survey cover the current state practices regarding capitalization thresholds. The first question asks whether the individual state public service commissions prescribe capitalization thresholds for companies under their jurisdiction. The second question addresses circumstances and guidelines by which state commissions question the reasonableness of company-set thresholds. The third question asks whether the respondent perceives any problems with current thresholds. The fourth question explores threshold circumvention on the part of regulated utilities.

### A. Current Prescribed Thresholds

#### *Electric and Gas*

Most of the survey respondents indicated that their commission does not set thresholds in the electric and gas industries with the exception of Florida, Indiana, Oklahoma, and Wisconsin.<sup>1</sup> At the same time, according to NARUC, most states rely on the Federal Energy Regulatory Commission (FERC) for a system of accounts.<sup>2</sup> Although the FERC Uniform System of Accounts does not prescribe a capitalization threshold explicitly, \$500 is mentioned as an example for hand and portable tools.<sup>3,4</sup>

The majority of the respondents stated that their commission questions the reasonableness of company-set thresholds. The factors used to question the company-set thresholds include:

- materiality
- industry standards
- nature and use of purchase
- Generally Accepted Accounting Principles
- size of firm

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<sup>1</sup>Florida has set by rule a threshold of \$500 for certain retirement units and \$10,000 for the replacement of certain retirement units for the electric and gas utilities. Indiana sets a threshold of \$200 on certain equipment of the electric utilities and \$500 on certain equipment of the gas utilities. Oklahoma sets thresholds on an individual case basis. Wisconsin sets a threshold of \$500 on general plant and equipment of the electric and gas utilities.

<sup>2</sup>NARUC Compilation of Utility Regulatory Policy in the United States and Canada, 1993-1994.

<sup>3</sup>Code of Federal Regulations, Title 18, Chap. I, Subchap. C, Part 101, Electric Plant Instructions, 9B.

<sup>4</sup>Code of Federal Regulations, Title 18, Chap. I, Subchap. F, Part 201, Gas Plant Instructions, 9B.

Respondents were asked whether potential problems with current thresholds might be that they are too high, too low, or arbitrary. Generally, commissions did not express these concerns with current thresholds for the electric and gas industries.

### *Telecommunications*

Generally, all respondents except Delaware, Florida and Oklahoma either indicated that their commission defers to the FCC to set the threshold or indicated that they do not set a threshold.<sup>5</sup> It is assumed that states which do not set a threshold defer to the FCC. It appears that commissions do this so as not to put an unnecessary burden on the companies to keep separate sets of books. The current FCC threshold is \$500 which is applicable to selected asset accounts.<sup>6</sup> It is important to note, however, that the FCC is currently reviewing the appropriateness of the \$500 threshold.

Slightly more than half of the respondents stated that their commission does question the reasonableness of company-set thresholds. The factors used to question the company-set thresholds include:

- materiality
- dollar amount of purchase
- FCC guidelines
- size of firm
- industry standards

Generally, most respondents do not identify any problems with the current threshold for telecommunications. A few, however, do say that the threshold appears to be too low. It was also stated that the threshold is not the problem; reasonable adherence to the threshold is the problem. Pennsylvania mentioned that some small companies do not understand the difference between a capital expenditure and an expense.

New Jersey reported that it regulates cable television, but defers the threshold-setting for cable television to the FCC. Typically, the New Jersey Commission does not

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<sup>5</sup>Delaware and Oklahoma choose to set thresholds on a case-by-case basis. Florida prescribed by Rule a \$500 threshold prior to the FCC's adoption of a \$500 threshold.

<sup>6</sup>Code of Federal Regulations, Title 47, Chap. I, Subchap. B, Part 32, Subpart C, Instructions for Balance Sheet Accounts, par. 32.2000(a)(4).

question the threshold as long as the FCC guidelines are followed by the companies.

### *Water and Wastewater*

Most commissions do not set thresholds for their water and wastewater companies. Of the commissions who do set thresholds, \$100-\$200 is common. The majority of commissions follow the NARUC Uniform System of Accounts (USOA). Although the NARUC USOA does not prescribe a capitalization threshold, it provides an example of \$100 for hand and portable tools.<sup>7,8</sup>

More than half of the commissions check the company-set thresholds for reasonableness. The factors they consider include:

- materiality
- consistency of application
- industry guidelines
- effect on rates
- size of company

Although most respondents do not think the company-set thresholds are too low or too high, some think they are arbitrary. In addition, according to several commissions, some companies have had a problem applying the threshold; although the threshold itself is acceptable.

### **B. Circumvention**

The results of this survey do not point to a general situation where companies are bundling or unbundling purchases to circumvent capitalization thresholds. This is not surprising because most states do not dictate the threshold a company must use, so there is no motivation to bundle or unbundle costs. On the other hand, some instances of bundling or unbundling have occurred. These limited instances of noncompliance appear to be a result of differences of interpretation of categories or for ease of recordkeeping, rather than rate manipulation.

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<sup>7</sup>NARUC Uniform System of Accounts for Class A Water Utilities 1984, Accounting Instructions, (26)(B).

<sup>8</sup>NARUC Uniform System of Accounts for Class A Sewer Utilities 1984, Accounting Instructions, (26)(B).



### **C. Cross-industry Analysis**

In general, most state commissions do not set capitalization thresholds for any industry. In the telecommunications industry, almost all states defer the threshold decision to the FCC. In the electric and gas industries and the water and wastewater industries, most states have adopted the FERC USOA and the NARUC USOA, respectively, neither of which prescribe thresholds. At the state level, individual companies are generally allowed to set their own thresholds.

Across industries, the majority of the respondents usually question company-set thresholds. However, a noticeable percentage of commissions do not question company-set thresholds. Several possible reasons those commissions allow companies the freedom to determine thresholds are because commissions: (a) believe companies are in a better position to evaluate company costs; (b) want to allow companies the flexibility to set reasonable thresholds; (c) believe the cost of establishing thresholds and monitoring their use outweigh the benefits; and (d) may consider the amounts in question to be immaterial relative to rate base and rates.

### **III. THRESHOLD CRITERIA**

One purpose of the survey was to get a list of criteria important in the determination of a capitalization threshold. Question five provides the framework for this analysis.<sup>9</sup>

The criteria used to set capitalization thresholds are common to all industries and can be grouped into four broad objectives. These objectives are practicality, materiality, objectivity, and necessity. Although there may be some give-and-take among objectives and all objectives will not necessarily carry the same weight, each should be examined in order to develop an appropriate threshold.

#### **A. Practicality**

Many respondents expressed a desire for thresholds to reduce the cost of recordkeeping. Not only is it expensive, time consuming, and impractical to record and track minor assets; but auditing those assets, both internally and externally, is time consuming and expensive as well. The goal of making the tracking of assets more practical is often met by higher thresholds rather than lower thresholds.

Another suggestion for how to make a threshold more practical is to utilize the thresholds set by federal agencies like the FCC. This would reduce duplicated efforts and their associated costs.

#### **B. Materiality**

Many respondents view materiality as an important consideration in developing a threshold. The effect of a threshold is to reclassify a capital purchase as an expense. Such reclassification is acceptable for one reason, to reduce recordkeeping costs, and only then if the financial statements are not materially affected. For this reason,

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<sup>9</sup>The survey produced many criteria which govern whether a cost should be capitalized or expensed, but are not relevant to determining an appropriate threshold. These criteria (including expected useful life, whether the cost is an upgrade or actually a repair, whether the benefit from the cost will be realized over more than one year, importance of the asset to daily operations, and others like them) do not particularly aid in the development of thresholds and will not be discussed in the body of this paper, but are included in the tabulations in Attachment B for reference.

materiality represents the upper boundary for a capitalization threshold. For example, the threshold that produces the best savings may be \$1, \$1,000, or \$100,000, but in no case can the capitalization threshold exceed what is material.

What is considered material differs for various size companies. For instance, a \$2,000 asset may not be material for a telephone company with \$1 billion in revenue. But for a small water or wastewater company with \$20,000 of revenue, a \$500 asset would be material.

Materiality can be approached on an account, division, or company level. If it is approached at an account level, materiality would be based on an asset account total. If it is approached at a division or company level, materiality could be based on total assets or total revenues of the division or company.

Variations in company size and differences in the approach taken (account, division, or company level), cause a need for the application of subjective judgment in defining materiality. Although the determination of what is material is complex, incorporating a materiality standard in threshold-setting would help to avoid the misrepresentation of financial information.

### **C. Objectivity**

Another important consideration in the establishment or change of a capitalization threshold is objectivity. The interests of both ratepayers and companies should be considered. Because costs are passed on to ratepayers, a given threshold will affect companies and ratepayers together. For example, while the threshold level may not materially affect ratepayers through rates immediately, a high threshold might indirectly lower rates over the long term through lower company administrative costs, helping both the company and ratepayers.

To determine an objective threshold, an understanding of the costs and benefits at stake must be made. Respondents provided a list of costs and benefits by industry. These considerations are discussed in Chapter IV.

### **D. Necessity**

The last major consideration of thresholds is necessity. It may be best to withhold prescribing a threshold for each industry. With the growing momentum for

deregulation and less government intervention, it might be more prudent to leave in place the states' flexibility to respond to this new paradigm for the electric, gas, and telecommunications industries. Also, the FCC is clearly cognizant of the need for appropriate thresholds for telecommunications companies. FERC is also in a position to determine whether thresholds are appropriate in the electric and gas industries. For these reasons, there may not be a need for NARUC to prescribe thresholds in those industries.

The next chapter summarizes, by industry, the respondents' views on what should be the basis of a threshold: (1) a fixed amount; (2) a percent based on materiality; or (3) a case-by-case judgment with no set threshold. The respondents share whether they believe that the size of the company should be a consideration to the threshold and what specific costs and benefits would accrue from changing or establishing a threshold.

## IV. SUGGESTED THRESHOLDS

The nature of capitalization thresholds is financial, and the first priority of a threshold is to reduce costs associated with capitalizing and tracking assets. If that goal is met, then nonfinancial costs and benefits can be considered. If accounting and recordkeeping costs are not reduced, then the threshold is unsuccessful no matter what nonfinancial benefits accrue.

After costs and benefits are reviewed, it may be decided that the threshold should be either a fixed amount, a range of amounts, or a percentage based on materiality. The decision may be made on a national level, or it may be left up to individual commissions or companies. All options should be examined and reviewed.

What follows is a summary of the suggestions made by the respondents. The suggested thresholds, along with costs and benefits taken into consideration, are discussed by industry. Whether or not the thresholds would change based on company size is discussed collectively. Finally, peripheral and overhead costs which may be included in the purchase cost of an asset are discussed. Questions six through ten of the survey provided the basis for discussion.

### A. Industry

#### *Electric and Gas*

Threshold. A little more than half of the respondents believed that the threshold should be based on a fixed amount. Thresholds ranging from \$500 to \$2,000 were suggested, with \$1,000 being the most common.

A little less than half of the respondents opted for flexible thresholds. Most of those respondents believed that thresholds should be set on a case-by-case basis. A small number thought that a uniform percentage could be determined that would capture material information, although no specific percentage was recommended.<sup>10</sup>

Costs. Specific costs that might be incurred by establishing any threshold in the electric and gas industries include: increased initial recordkeeping costs (including

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<sup>10</sup>A threshold could be established as a percentage on an industry level and applied to a company by converting the percentage into a dollar amount for ease of use.

computer and software costs); a detrimental impact on earnings if costs improperly flowed through to rates; potential problems with the Internal Revenue Service (IRS) from confusing regulatory accounting rules with IRS rules; and potential arbitrariness and mismatching.

Specific costs associated with higher thresholds include potentially higher rates over the short term and less precision and detail in Continuing Property Records (CPR). Lower precision and accuracy may set the stage for less control over the custody of assets. Specific costs associated with lower thresholds include higher recordkeeping costs from tracking immaterial assets.

Benefits. Specific benefits resulting from the establishment of any threshold may include an administrative cost savings, eliminating points of contention between company staff and regulatory staff, eliminating uncertainty, and simplifying recording procedures. A uniform threshold may also make comparisons among companies easier.

Specific benefits associated with higher thresholds may include lower rates in the long term and lower recordkeeping costs. A specific benefit associated with lower thresholds might be more stable rates in the long run. More costs are capitalized and depreciated under a lower threshold, and therefore spread over a longer period. This would result in less volatile expense amounts, which helps to smooth rates.

### *Telecommunications*

Threshold. A little more than half of the respondents felt that the threshold should be based on a fixed amount. Thresholds ranging from \$500 to \$5,000 were suggested, with \$500, \$1,000 and \$2,000 being common.

A little less than half of the respondents opted for flexible thresholds. Most of those respondents thought thresholds should be set on a case-by-case basis. A small number thought that a uniform percentage could be determined which would capture material information, although no specific percentage was recommended.

Costs. The specific costs reported for the telecommunications industry were primarily the same as those reported for the electric and gas industries with some additional concerns. For example, telecommunications companies may want to individually petition the FCC to change depreciation rates to offset the impact of the changed capitalization threshold. Also, higher thresholds may cause a distortion of small utilities' expense claims.

Benefits. The specific benefits reported for the telecommunications industry were also essentially the same as for the electric and gas industries.

#### *Water and Wastewater*

Threshold. Approximately half of the respondents felt that the threshold should be based on a fixed amount. Thresholds ranging from \$250 to \$2,000 were suggested, with \$1,000 the most common.

The rest of the respondents opted for flexible thresholds. Most of these respondents thought that thresholds should be set on a case-by-case basis. A small number thought that a uniform percentage could be determined that would capture material information, although no specific percentage was recommended.

One respondent indicated that fixed thresholds are of little benefit in the water and wastewater industry. Moreover, thresholds are rarely updated and eventually become too low. Another respondent commented that most water and wastewater companies rarely make improvements. Besides, rate base is usually very small or negative because the capital is contributed.

Costs. The specific costs reported for the water and wastewater industry were primarily the same as those reported for the electric and gas industries with some additional concerns. Initially, there would be additional rulemaking costs. Further, higher thresholds may cause a distortion of small utilities' expense claims and possibly unaffordable rates over the short term.

Benefits. The specific benefits reported for the water and wastewater industry were also essentially the same as for the electric and gas industries. However, it was suggested that a set threshold could encourage quicker approval of needed assets.

### **B. Company Size**

The majority of the respondents reached the conclusion that company size is important to the practicality of a threshold. About two-thirds<sup>11</sup> of the respondents

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<sup>11</sup>On survey question seven, about half of the commissions responded that their recommended threshold would not change based on company size. But about half of the 'no' responses were from commissions who recommended that thresholds should be set on a case-by-case basis. So, in reality, few commissions recommended a fixed threshold that would apply to all companies regardless of size

believe that a fixed threshold will not be as effective as a threshold set on a case-by-case basis. Because companies come in various sizes and have different levels of accounting sophistication, a fixed threshold for each industry probably will not reduce recordkeeping costs efficiently for all sized companies and would not be preferable. Only one-third felt that a fixed threshold would work regardless of size.

### **C. Peripheral and Overhead Costs**

For purchases of assets near the threshold level, the inclusion of peripheral or overhead costs in the original purchase can be critical to the classification of the purchase as an expense or as an asset. For example, if a machine is purchased at \$900 by a company with a threshold of \$1,000, the purchase, although for a capital asset, is classified as an expense. But if the cost of \$125 to install the asset is included, the purchase is declared an asset.

Examples of peripheral and overhead costs were given to respondents. Respondents agreed almost unanimously that the following four costs should be included in the cost of the asset: installation labor costs, software costs, renovation costs, and direct supervisory costs. It was generally agreed that accounting costs and indirect supervisory costs should also be included. Three costs received mixed responses: service contract costs, warranty costs, and officer salaries.<sup>12</sup>

Respondents also mentioned a number of additional costs to be considered for inclusion in the cost of the asset. The costs included incidental materials, transportation costs, permits, direct insurance costs, cost of special studies, clerical, general labor, and engineering costs. These costs were not voted on and are only suggestions.

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<sup>12</sup>It may be necessary to use an overhead application rate in order to allocate costs such as officer salaries, electricity, insurance and similar overhead costs.



## V. CONCLUSION

The purpose of this paper is to provide information to NARUC in order to do a systematic evaluation of capitalization thresholds in the electric, gas, telecommunications, and water and wastewater industries. With this information, NARUC will decide whether it should pursue making a recommendation to establish or change thresholds for each industry.

The purpose of a capitalization threshold is to reduce accounting and recordkeeping costs by expensing small purchases. A threshold should be high enough to reduce costs without losing material accounting detail and without risking the loss of assets by failing to track them properly.

Currently, most state commissions do not set capitalization thresholds for any industry. In the telecommunications industry, almost all states defer the threshold decision to the FCC. In the electric and gas industries and the water and wastewater industries, most states have adopted the FERC USOA and the NARUC USOA, respectively, neither of which prescribe thresholds. At the state level, individual companies are generally allowed to set their own thresholds. Circumvention does not seem to be a problem.

While there is a strong argument for leaving the current practices alone, NARUC may determine that it is appropriate to analyze them further. Four criteria to be used in determining the appropriateness of a threshold are practicality, materiality, objectivity, and necessity. A threshold would be considered inappropriate if it: (1) is not practical [raises costs or does not reduce costs]; (2) results in misrepresentation of financial information by reclassifying material amounts; (3) is unfair to either companies or ratepayers; or (4) is unnecessary in light of the existing regulatory paradigm.

Suggestions for thresholds were divided. Some suggested a fixed amount, while most of the rest suggested that a threshold could only be established appropriately on a case-by-case basis. The majority of respondents, however, agreed that the size of a company does impact the decision for a particular threshold.

If a decision is made to change existing thresholds or establish new thresholds, one alternative may be to set a reasonably high cap on the threshold, but allow companies to adopt lower thresholds if they choose. A cap on the threshold would insure

that the companies would not choose an unreasonably high or material threshold; however, it is important that the company-set threshold be applied consistently.

The primary purpose of a threshold is to reduce recordkeeping costs. Those costs are difficult to determine at an individual company level, let alone in the aggregate. Perhaps the most qualified to set thresholds are the companies themselves.

**ATTACHMENT A**  
**SURVEY INSTRUMENT**

Commissioners:  
SUSAN F. CLARK, CHAIRMAN  
J. TERRY DEASON  
JULIA L. JOHNSON  
DIANE K. KIESLING  
JOE GARCIA



Division of Research and Regulatory Review  
DANIEL M. HOPPE, DIRECTOR  
(904) 413-6800

## Public Service Commission

### M E M O R A N D U M

November 2, 1995

TO: State Regulatory Commissions  
Industry Associations  
(Specific addressees on attached list)

FROM: NARUC Subcommittee on Accounts, Tim Devlin, Vice Chairman  
NARUC Subcommittee on Depreciation, Pat Lee, Vice Chairman  
Daniel M. Hoppe, Director, Division of Research and Regulatory Review

SUBJECT: Capitalization Vs. Expense Thresholds

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NARUC's Staff Subcommittee on Accounts and Staff Subcommittee on Depreciation have undertaken a project to examine the current thresholds for the capitalization of assets for regulated utilities. Concurrently, the FCC is determining the adequacy of the capitalization threshold of support assets in the telecommunications industry.

This survey is being conducted in order to support a paper exploring the relevant issues for determining capitalization thresholds. We are also looking at the pros and cons of alternative threshold levels.

In order to help assess the *potential* costs and benefits of alternative capitalization thresholds, please respond to the attached survey. To ensure that your response will be included in our analysis, please respond by December 8, 1995. Questions concerning the survey should be addressed to Matthew Brinkley at (904) 413-6838.

MGB:tf/d-capita  
Attachments

## **CAPITALIZATION vs. EXPENSE THRESHOLDS**

<b>DATE DATA REQUEST DUE: December 8, 1995</b>
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### **STATE REGULATORY AGENCIES:**

ALABAMA PUBLIC SERVICE COMMISSION - Mr. James Norman  
ALASKA PUBLIC UTILITIES COMMISSION - Mr. Robert Lohr  
ARIZONA CORPORATION COMMISSION - Mr. Randy Sable  
ARKANSAS PUBLIC SERVICE COMMISSION - Mr. Terry Fowler  
CALIFORNIA PUBLIC UTILITIES COMMISSION - Mr. Tom Lew  
COLORADO PUBLIC UTILITIES COMMISSION - Mr. Bruce Smith  
CONNECTICUT DEPARTMENT OF PUBLIC UTILITY CONTROL - Mr. John T. Cox  
DELAWARE PUBLIC SERVICE COMMISSION - Mr. William C. Schaffer  
DISTRICT OF COLUMBIA PUBLIC SERVICE COMMISSION - Mr. Norman Reiser  
FLORIDA PUBLIC SERVICE COMMISSION - Mr. Tim Devlin  
GEORGIA PUBLIC SERVICE COMMISSION - Mr. Ken H. Ellison  
HAWAII PUBLIC UTILITIES COMMISSION - Mr. Milton Y. Higa  
IDAHO PUBLIC UTILITIES COMMISSION - Ms. Stephanie Miller  
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INDIANA UTILITY REGULATORY COMMISSION - Mr. Robert W. Boerger  
IOWA UTILITIES BOARD - Mr. Donald P. Judisch  
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MISSISSIPPI PUBLIC SERVICE COMMISSION - Mr. Dorman Davis  
MISSOURI PUBLIC SERVICE COMMISSION - William A. Meyer, Jr.  
MONTANA PUBLIC SERVICE COMMISSION - Ms. Jeaneen Campbell  
NEBRASKA PUBLIC SERVICE COMMISSION - Mr. Steven G. Stovall  
NEVADA PUBLIC SERVICE COMMISSION - Mr. Michael Chapman  
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION - Mr. Mark Naylor

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SOUTH DAKOTA PUBLIC UTILITIES COMMISSION - Mr. William Bullard  
TENNESSEE PUBLIC SERVICE COMMISSION - Mr. David Gaines  
TEXAS PUBLIC UTILITY COMMISSION - Mr. John M. Gillespie  
UTAH PUBLIC SERVICE COMMISSION - Mr. Thomas Peel  
VERMONT PUBLIC SERVICE BOARD - Mr. Ennis J. Gidney  
VIRGINIA STATE CORPORATION COMMISSION - Ms. Susan D. Larsen  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION - Mr. Merton Lott  
WEST VIRGINIA PUBLIC SERVICE COMMISSION - Mr. Todd Carden  
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**ASSOCIATIONS:**

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AMERICAN GAS ASSOCIATION - Mr. Joe L. Gill  
EDISON ELECTRIC INSTITUTE - Mr. David Stringfellow  
NATIONAL ASSOCIATION OF WATER COMPANIES - Ms. Jean Lewis  
NATIONAL CABLE ASSOCIATION - Mr. Rick Cimerman  
NATIONAL RURAL WATER ASSOCIATION - Mr. John Montgomery  
OPASTCO  
UNITED STATES TELEPHONE ASSOCIATION - Mr. Porter E. Childers

## CAPITALIZATION VS. EXPENSE THRESHOLD SURVEY

Commission/Association: \_\_\_\_\_

Contact Person: \_\_\_\_\_

Position: \_\_\_\_\_

Address: \_\_\_\_\_

City, State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Telephone: \_\_\_\_\_ FAX: \_\_\_\_\_

PLEASE RETURN NO LATER THAN DECEMBER 8, 1995, TO:

Matthew G. Brinkley  
Division of Research and Regulatory Review  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0872

FAX No. (904) 487-1716  
ATTN: Matthew Brinkley

1. Does your Commission prescribe a dollar threshold for capitalization of assets? Describe the asset accounts or subaccounts to which the thresholds apply.

UTILITY	THRESHOLD	DESCRIPTION OF ASSETS
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

2. If companies set their own thresholds for capitalization of assets, do you ever question the reasonableness of those thresholds? If so, what guidelines do you use?

UTILITY	YES/NO	GUIDELINES
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

3. Have there been any problems with current thresholds for the capitalization of assets in different industries? If so, please identify the problem(s).

UTILITY	TOO HIGH	TOO LOW	ARBITRARY	OTHER
Electric				
Gas				
Telecommunications				
Water & Wastewater				
Other				

4. Have companies bundled or unbundled expenditures in order to circumvent the thresholds? If so, please explain.

5. Describe the criteria important in determining an appropriate capitalization threshold.



6. If a threshold is changed or established, should it be a set dollar amount or based on materiality (a percentage of plant or earnings)? What threshold would you recommend?

UTILITY	AMOUNT/PERCENT	RECOMMENDED THRESHOLD
Electric		
Gas		
Telecommunications		
Water & Wastewater		
Other		

7. Would your recommendation change based on the size of the company (large vs small)? Please explain.

8. Describe the costs and benefits of changing or establishing thresholds for capitalization of assets as recommended in question 6.

UTILITY	COSTS AND BENEFITS
Electric	
Gas	
Telecommunications	
Water & Wastewater	
Other	